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US + INTER
CONTACT - DEFINITIVE

WESTERN CONTROLS APPLIED AGAINST THE SOVIET BLOC

1. Transshipment Controls *DOC Exempt Letter On File*

The US and Canada have instituted a system of transshipment licensing for goods of all kinds destined for Communist China, North Korea, Hong Kong and Macao. The UK has a similar transshipment licensing system, but uses a less comprehensive list which covers in effect arms and munitions, all goods on International List I, a few on IL/II, all metalworking machine tools, and rubber, as these are considered by the UK to be of major strategic importance to Communist China. The UK transshipment control applies to goods on the transshipment list when in transit, whether or not on a through bill of lading, landed on the quay side or transferred from one vessel to another in the UK, but not to goods in transit which remain on board a vessel even when they are reconsigned to a new destination. There are no transshipment controls applied to Hong Kong, although legal powers to control transshipment cargo exist to be applied at the discretion of the Hong Kong Government. To date, Belgium and The Netherlands, whose ports traditionally have served as major transit points in Western Europe, have not adopted transshipment licensing. All CoCom countries, however, have agreed that transshipment controls are necessary, and they are at present engaged in working out the details of such controls.

2. Bunker Controls

The US prohibits its oil companies from bunkering vessels carrying strategic cargoes to Far East Communist ports and Macao, or strategic cargoes destined for these areas even though the vessel itself does not call at such ports. Although petroleum products are on IL/I, neither the US nor the UK prohibits their oil companies from supplying bunkers to vessels carrying non-strategic cargoes to Communist China. In each case where bunkers are requested of a US company, the burden of proof as to the strategic character of the cargo rests with the oil company, unless it seeks prior advice of consular officials.

Until recently, British companies continued to honor bunkering contracts for vessels of Soviet flag. Since the beginning of 1953, however, the UK Government has taken steps to tighten up the operation of its policy to deny bunkers, where possible, to ships carrying strategic goods to Communist China, and a new set of instructions was brought into use on 30 April 1953 covering bunkering requests for ports east of and including Port Said. Under these instructions the British oil companies must refer to the UK Government every request for the supply of bunkers to ships sailing to Communist China if they are of Soviet Bloc registry or sailing from Soviet Bloc ports. In such cases the request will be refused.

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Bunkering requests for other ships sailing to Communist China and not subject to voyage licensing are referred to the UK Government for guidance where time permits, and will be refused, or acceptances cancelled, if there is available information that they are carrying a significant quantity of strategic cargo. In any case where a request has been refused, it is open to the owners or charterers to produce evidence that the cargo is non-strategic, and if this is done to the satisfaction of the government, bunkers may be supplied. A similar system of control applies to the supply of marine lubricants and bunker coal.

Where ships believed to be carrying strategic cargo ask or are expected to ask British oil companies for bunkers in ports not under British control, the local government will be asked not to countermand any instructions given by the UK Government to the company, but in the last resort the final decision rests with the local government.

In Hong Kong a system of bunkering controls has been in operation since mid-1951 whereby the three major oil companies refuse bunker oil and lubricants to any vessel, whether ocean-going or junk, unless specifically exempted or in possession of a government permit or other authorization stipulating the exact amount of petroleum products that may be purchased.

The French Government refused in December 1952, to renew the contract held by Mory Bros. to bunker Polish vessels at Djibouti. On 28 March 1953, the French Government announced that it would institute controls to deny bunkers to vessels carrying strategic cargo to Communist China.

On 15 April 1953, the US instructed its oil companies and their foreign branches and subsidiaries to refuse bunkers to any vessel returning from Far East Communist ports and Macao unless it can be proved that the vessel carried solely non-strategic cargo to these areas on its outbound voyage. They were further instructed to deny bunkers to any vessel returning from any Far East ports, where there is cause to believe that the vessel was refused bunkers on its outbound voyage. In the case of the UK, however, British oil companies are free to bunker, on the return voyage, ships that have carried strategic cargo to Communist China.

3. Voyage License Controls

US and Costa Rica formally control (and in practice prohibit) chartering of their flag vessels for trade with the Soviet Bloc. In addition the US prohibits its flag vessels from calling at ports under the control of Communist China. Liberia exercises

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controls over cargoes that can be carried by its flag vessels to the Bloc. The Mutual Security Agency now inserts a clause in its charter parties for movement of cargoes to Formosa which stipulates that vessels will not engage in trade with Communist China or any other Soviet Bloc destination for a period of 60 days after discharge of cargo in Formosa. The MSA now also inserts a restrictive clause in its charter parties for the movement of cargoes to Indochina, Thailand, and the Philippines which prohibits a vessel from calling at any Communist Far East port (the minimum clause) for 60 days after discharge of cargo in the specified areas. Other government agencies have agreed to take similar action for charter parties applicable to areas covered by their programs.

Until recently, only three countries (Panama, Costa Rica, and Honduras) had regulations similar to the US prohibition of flag vessels calling at Chinese Communist ports. Most of the Panamanian vessels engaged in trade with Communist China withdrew after the Panamanian decree of 18 August 1951. By March 1953, Panama had revoked the registry of those vessels which remained in that trade. It is assumed that those vessels are now flying the Chinese Communist Flag. Effective 17 March 1953, the Greek Government prohibited Greek-registered vessels from calling at ports controlled by Communist China and North Korea.

On 31 March 1953, the UK and colonies imposed a system of voyage licensing to prohibit British ships over 500 GRT from carrying strategic cargo to any Chinese Communist port. This system applies to all ships registered in the UK and the colonies, whether or not chartered to foreign charterers, and irrespective of the origin of the cargo. Its provisions, therefore, cover voyages from one Communist Chinese port to another. Strategic cargo, for voyage licensing purposes, is defined by a list covering substantially the items on the UK China Prohibited List, but simplified in statement for purposes of recognition. The terms of the license prohibit the ship from carrying listed goods to Communist Chinese ports, and the duty of compliance rests with the owners and masters. In every case the grant or refusal of a license is at the discretion of the authorities. Proof of compliance with the order, by submission of manifests, is not normally required, and where infringement is suspected, the proof of guilt is the responsibility of the authorities. Canada has adopted similar legislation. France and The Netherlands have taken steps which in effect go a considerable way toward this objective.

4. Financial and Transaction Controls

Under regulations issued 17 December 1950, the US Government prohibited all trade and financial transactions involving the Chinese Communist and North Korean regimes and their nationals by persons subject to the jurisdiction of the US, except with prior approval of the Treasury Department. To make these regulations effective all Chinese Communist and North Korean assets in the US were frozen and

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provisions were made for remittances to those areas only on a licensed basis. This action has resulted in an embargo of US imports from Communist China and North Korea, except for certain purchases of strategic commodities specifically authorized by the US Government prior to May 1952.

The US Government also instituted controls during 1952 over the import from Hong Kong, Macao, Japan, Formosa, and other areas, of Chinese type merchandise and permitted their import only when they could be proved to be of non-Chinese Communist origin. The authorities in Hong Kong, Japan, Formosa, and South Korea have cooperated in these controls by the issue of special certificates of origin in accordance with procedures agreed upon with the US Government. The US is the only country which has applied such controls against Communist China.

The UK does not apply transactions controls at present but has indicated a willingness to adopt such controls in the UK only and that conditionally upon agreement of all other CoCom countries to institute simultaneously effective transaction and transshipment controls.

Barbara M. Shortley
E/ST
21 September 1954

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